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ABSTRACT

High school noncompletion rates remain persistently high. Youth Tuitionships are a mechanism for supporting learners who are not suited financially, emotionally, or pedagogically for the traditional high school learning environment of grades 11 and 12. They provide a mechanism whereby various forms of federal, state, and local aid can be self-directed by students and their parents to maximize learning experiences and personal growth and development. Youth Tuitionships are an alternative to a fragmented categorical system of federal funding that attempts to address specific needs. A review of the learning industry's changing market dynamics, the impact of the "new economy," the profile of workers and learners between the ages of 16 and 24 years, and secondary career development financing makes it clear that Youth Tuitionships could serve as a universal, simplified mechanism of funding alternative and accelerated learning and could become part of a larger federal initiative to create a portable financing vehicle for lifelong learning called the Career Learning Account. Five steps that policymakers can take to advance the Youth Tuitionships concept have been identified. (Legal age requirements for 16- to 19-year-olds in the 50 states and a discussion of recent developments in self-directed financing for education, training, and lifelong learning are appended.) (MN)

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Youth Tuitionships: An Alternative Funding Arrangement to Improve Markets and Respect Individual Learning Differences

A Policy Paper Prepared for the

Office of Vocational and Adult Education,

U. S. Department of Education

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Youth Tuitionships: An Alternative Funding Arrangement to Improve Markets and Respect Individual Learning Differences

Graham S. Toft

Summary

This policy paper is motivated by the goal that all residents of the United States have sufficient financial aid to support, at minimum, high school equivalency and to acquire skills mastery sufficient to compete in the entry level labor market.

High school non-completion rates remain persistently high. Non-completers are made up of high school dropouts and accelerated learners. Dropping out is not only a problem for personal growth and development, but shorts the nation of much needed skilled workers in the "new economy." Further, dropping out has implications for social justice. Higher percentages of minority youth drop out than white youth. Accelerated learning, on the other hand, improves return on investment, while rewarding the young person with progress. In both cases an alternative financing mechanism would promote flexibility, enhance consumer choice, and expand competition in the provision of education and training services.

This paper is about designing a funding mechanism that supports those who are not suited financially, emotionally, or pedagogically for the traditional high school learning environment, grades 11 and 12. It is about those who are vocationally oriented and about those juniors and seniors who seek accelerated learning through advanced placement, pre-college and college settings. It is about "choice of learning" rather than "choice of schooling," about competency completion over attendance compliance.

Youth Tuitionships are proposed as a universal, simplified mechanism whereby various forms of federal, state, and local aid can be self-directed by students and their parents to maximize learning experiences and personal growth and development. Youth Tuitionships are an alternative to a fragmented categorical system of federal funding that attempts to address specific needs. Youth Tuitionships could be part of a larger federal initiative to create a portable financing vehicle for lifelong learning: The Career Learning Account.

The paper begins with four parts that provide a situation analysis, a discussion of the changing market dynamics of the learning industry, a review of the impact of the "new economy," a profile of workers and learners age 16 to 24, and a review of secondary career development financing.

Part 5 describes the basic design and application of Youth Tuitionships. While not essential for the implementation of Youth Tuitionships, the Career Learning Account is proposed in Part 6 as a valuable adjunct and possible "21st Century GI Bill."

Part 7 explores potential criticisms of Youth Tuitionships and begins a search for alternative approaches.

The paper concludes with suggested next steps. The concept appears promising enough to warrant further analysis, design, and demonstration.

Several "out of the box" ideas are presented in this paper.

- That beyond 16 years of age, the local School District is responsible for funding a young person's subsequent two years of equivalent full-time learning, regardless of whether he/she attends school.

- That early high school leavers have access to financial aid up to the equivalent of the last two years of high school – the tuition aid follows the individual rather than the education/training provider.

- That employers have an opportunity to co-invest in the learning and development of early school leavers.

- That community foundations, community development corporations, and related community-based organizations have an opportunity to counsel, mentor, and financially advise youth who leave school before graduation.

- That a modified Coverdell Education Savings Account, the Career Learning Account, offers potential as the 21st century's answer to the Montgomery GI Bill, one of the nation's most successful student aid programs.

1. Introduction: The "New Learning" Market and Pursuit of Quality

This policy paper seeks answers to the following questions:

- How might alternative financing mechanisms for 16 to 18 year olds improve aggregate educational attainment?
- Could a student/parent directed scholarship/tuitionship for 16 to 18 year olds facilitate and enable improved integration of secondary and post-secondary offerings (2+2 programs)?
- Could an alternative financing mechanism be more socially equitable, empowering young minorities?
- What if educational philosophy were to change in favor of moving students up on the basis of competency rather than school attendance. Would an alternative financing system be more appropriate and how would it work?

The "New Learning Market"

Through the 1980s and 1990s major economic sectors of the U.S. underwent market restructuring, liberalization, and deregulation. Competitive capitalism found its way into hitherto regulated industries, including energy, transportation, and telecommunications. Somewhat similar transformations are now underway in the human capital sector. These changes are more gradual, but just as consequential. A "new learning market" is emerging – one that is more customer driven, demand responsive, competitive, price sensitive and quality conscious. It is also more integrated, breaking down traditional barriers between secondary, post-secondary, and adult/continuing education. Key actors in this marketplace include public and private education/training providers, labor market information and counseling/guidance intermediaries, corporate and labor training centers, and employer skills collaboratives.

Traditional statist solutions to the provision of public education and training through schools, community colleges, and public universities continue, while more entrepreneurial initiatives surface in parallel. While a school district is pursuing excellence through conventional high school programs for 17 and 18 year olds, it might also be a partner with a local non-profit, chamber of commerce, and economic development organization in setting up an unconventional "learning center" storefront in the downtown. In another community, the area vocational school might be restructured as a "middle college" offering 2+2 (grades 11 to 14) programs in collaboration with local industry clusters and creating an affiliated applied technology center or business incubator.

And while the conventional means of financing public education through broad-based taxation budgeted as public expenditures for schools, community colleges and public universities continues, additional aid is being targeted at end users -- students, parents, and employers -- in the form of tax breaks, student aid, and customized training grants, etc.

In today's more dynamic and complex learning marketplace, the prominence and role of economic actors is changing.

- Businesses that can't wait. The fast pace of competitive forces in the new economy (see Part 2) increase business risks. Employers are striving to get a good handle on their human resources, including supply and skill level of school and college leavers.

- Learners (consumers) who want choice. The consumption of education and training services is little different from that of any other good or service. Today's consumers are demanding choice, flexibility, and convenience.

- Providers who want better market signals. Customer-oriented providers are modifying product, not only in curriculum to meet the requirements of the workplace, but are repackaging services to be more convenient, modular, and affordable to meet the needs of the learner.

- Intermediaries (public, private, and non-profit) want to serve as the interface between supply and demand. Non-profits, "one stops" and learning academies are providing improved labor market information, financial aid advice, job search, job match, counseling/guidance, etc.

Pursuit of Quality (Higher Standards and Accountability)

In competitive markets, consumers are sovereign. Across the U.S., citizen and employer expectations of schools are rising. After a decade long debate about a "Nation at Risk" and national skills standards, higher standards, uniform testing and school accountabilities are being built into federal, state, and local initiatives. As a state with previously slack high school completion requirements, Indiana for example, has adopted a "Core 40 Curriculum" for all high schoolers before graduation. Rigorous gateway exams are now required and non-performing schools have to prove progress to receive on-going state appropriations.

However, as the high performance/high accountability system gets underway, school educators and administrators are genuinely concerned about two unintended consequences.

- Added focus on "teaching to the test" appears to be resulting in less time "teaching to the student." While academic knowledge and basic skills may improve, social and life skills and lifelong learning habits may be shortchanged. Surveys of businesses consistently highlight their equal concern for social and life skills in addition to technical skills and knowledge mastery.
- If schools are paid on performance and higher standards, fewer succeeding students might mean lesser revenues. A vicious cycle could set in where less funding begets even poorer performance.

Paradoxically, while their local economies and business climates could suffer if these two fears become reality, businesses have been strong advocates for higher standards and accountabilities in education. One promising solution lies in school districts developing much closer ties with the business community whereby students, so inclined, would pursue work-study, coop education, and similar "learn-earn" tracks. Such initiatives would provide closer adult mentoring and encouragement while at the same time facilitating learning by providing real world context.

A second quality issue pertains to learning productivity in the last two years of high school. Hudson Institute interviews with educators and trainers in a recent regional *State of the Workforce Report*[1] surfaced concern that not all young people are being fully challenged in the last two years of high school. To begin with, by the last semester of senior year, college and non-college decisions have been made and the student is "waiting around." In some cases, school systems have increased advance placement offerings while others have coordinated with post-secondary providers to ensure a smoother transition from school to higher learning. Course credits obtained in the high school setting can be provided at lower cost than in the higher education setting, reducing cost of higher education. Equally, with respect to apprenticeship programs, a number of local educational systems are experimenting with 2+2 program apprenticeships combined with associate degrees between years 11 and 14.

The key questions then become: To what degree should emphasis be placed on school completion versus competency achievement? Can young people be accelerated into post-secondary learning, either vocational or academic, aided by a financing mechanism that is neutral as to where the learning takes place?

2. What the "New Economy" Means for the New Learning Market and Educational Attainment

The major driver behind new learning markets is the "new economy" or "knowledge economy." In the 1990s, after multi-decade low productivity performance, the U.S. economy experienced a remarkable productivity and new investment spurt. Higher levels of capital expenditures, mainly in IT and related equipment, along with an

[1] Educator and Trainer Interviews, *State of the Workforce Report*, Workforce Development Strategies, Inc., Kokomo, Indiana, 2002

upsurge in global trade contributed mightily to the '90s boom. The subsequent recession of 2001 and 2002 has some on Wall Street questioning the "new era" or "new paradigm." Some economists argue there never was a new economy, others claim it is over, while still others believe it is in its very early stages.

The productivity growth logic enunciated by Federal Reserve Chairman Greenspan appears to be the most plausible, namely, that while today's excessive investments and overcapacity must be worked off, the U.S. can look forward to promising growth grounded in the discovery of knowledge, innovation, commercialization, and entrepreneurship leading to continuing higher performance vis-à-vis international competitors.

According to Robert Atkinson of the Progressive Policy Institute, the new economy is here to stay. "What we are seeing is just the beginning of a profound transformation to a digital economy powered by information technology." "...a kind of profound transformation of **all** industries that happens perhaps twice in a century."[2]

Many authors describe the new economy in terms of the core processes that shape it. For example, the Progressive Policy Institute states: "Among its defining characteristics are fundamentally altered industrial and occupational order, unprecedented levels of entrepreneurial dynamism and competition, and the inexorable growth of globalization -- of which have been spurred to one degree or another by continuing advances in information technology."[2]

The following serves as a definition for this paper:

> *The knowledge economy is one in which **all** industries are constantly innovating and upgrading the value of their goods and services for higher productivity and profitability. In this economy, specialized knowledge is embedded in local organizations, such as schools, firms, banks, accounting firms, colleges, labor unions, and research institutes. Most importantly, knowledge is acquired and passed on systematically by institutions of learning that constantly upgrade the knowledge and skills of local workers who are eager to learn and keep up to date.*

The implications of this new economy for career and economic development are as follows:

- Economic development efforts to attract new investments to an area, or to strengthen the competitiveness of existing businesses, must rely heavily on selling the human capacity and learning institutions of the area.

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[2] Robert Atkinson with Rick Coduri, The 2002 State New Economy Index, Progressive Policy Institute forthcoming, Washington, D. C., 2002

- Labor factors have become key location determinants. For years the *Area Development* magazine in its annual survey has been ranking labor quality, availability, and costs as second only to highway access as the most important business location factor.[3]

- Career development means providing strong educational and training offerings both to the public and directly to work organizations to increase knowledge and skills mastery embedded in local/regional business clusters.

- Economic growth is more likely to occur where there are strong ties between the business/economic development community and the education/training community, ensuring smoother supply-demand match for knowledge and skilled workers. It is difficult to achieve a successful and productive career development system without employer participation. While early steps can be taken solely in the educational setting, career development requires co-production between learner, employer, and educational/training provider.

The challenge for local school boards and business, government, labor, and civic leaders is to find ways to improve the technical, social, and life skills of local workers, and to do so better than competitor areas.

One area of exploration for school districts is to partner with Business Skills Alliances and to craft seamless linkages between schools and post-secondary institutions. An example of the former is the machine tools program at Richmond High School, Indiana, based on a partnership between the high school and the Richmond Machine Tool Council. An example of the latter is the K-14 model under discussion in Minnesota where curriculum and scheduling linkages would be built between high schools and community technical colleges.

Only through such collaboration can expected shortfalls in labor supply and quality be addressed. Constantly increasing skill requirements coupled with an aging population point to tight labor markets in the foreseeable future. In *Workforce 2020*, Richard Judy and Carol D'Amico report the impact of an aging baby-boom generation on labor supply and quality.[4]

Authors Anthony Carnevale and Richard Fry note the following "demographic squeeze":[5]

- Retirement ages have been declining steadily.

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[3] *Area Development* Magazine, December issue, multiple years.
[4] Judy, Richard, D. and Carol D'Amico, "Workforce 2020: Work and Workers in the 21st Century," Hudson Institute, 1997.
[5] Anthony P. Carnevale and Richard Fry, "The Economic and Demographic Roots of Education and Training," unpublished, 2001.

- The generations that follow the boomers have higher college going rates.
- But because of smaller numbers, only a slight increase in the number of adults with education beyond high school can be expected by 2020, about three million workers (compare Exhibits 1 and 2).

Exhibit 1: 20-Year Exit and Entry by Educational Attainment

Educational Attainment of those Leaving Prime Working Age over the Next 20 Years.

		Less than High School	High School Only	Some College	BA	Advanced Degree
35 to 54 year olds in 2000	81,435	9,155	26,461	22,515	5087	8096
Source: U.S. Census Bureau, Educational Attainment in the United States, March 2000, (P.20-536).						

Exhibit 2: Projected Educational Attainment of those Entering Prime Working Age by 2020

25 to 44 year olds in 2020	83,505	9,939	24,847	24,458	19,717	4,544
Source: U.S. Census Bureau, National Population Projections of the Total Resident Population to 2100, Middle Series and Educational Attainment of 2000 25 to 29 year olds from March 2000 Current Population Survey.						

Despite gradual improvements in educational attainment levels as shown between exhibits 1 and 2, a net gain in those with less than high school is projected through 2020 (approximately 780,000).

Given the increasing demand for skilled workers and the Bureau of Labor Statitics's (BLS) projections that jobs that require at least some college will grow by 22% between 1998 and 2008, the U.S. could continue to face a skills shortage for several decades. As data in Part 3 demonstrate, one solution is to reduce the high school non-completion rate, another is to find alternative learning regimes for those who do not complete.

3. Profile of Learners and Workers Aged 16 to 24 Years Old

Work and Learning Among Youth and Young Adults

This paper is focused on an estimated 3.8 million 16 to 24 year olds who in 2000, did not possess high school diplomas and were not enrolled in school or college – referred to as the delayed learners. It is also interested in the 5.1 million who had

already completed some form of post-secondary education – referred to as the accelerated learners.

Information on school/college enrollment and work activity is reported annually by the BLS from the October supplement of the Current Population Survey.[6] The 2000 statistics offer the following snapshot:

- Of the 34.6 million 16 to 24-year olds in the labor force, 25.2% were enrolled in high school and 27.7% in college, leaving 47.1% enrolled in neither.
- Of those in high school, 38.7% also participated in the labor market by either working or actively looking for work. This would suggest potential for improved coordination between school and work.
- Of the 16.3 million 16 to 24-year olds not enrolled in school or college, 23.2% had not completed school and 45.3% had attained a high school diploma. 5.1 million (31.6%) had already completed some form of post- secondary education, of which 33.4% were college graduates already.
- "Among young persons not enrolled in school, a greater percentage of whites were in the labor force (84.6 percent) compared to Hispanics (77.0 percent) and blacks (73.2 percent)."

High School Non-Completion

According to Current Population Survey reported by the BLS, "Between October 1999 and October 2000, slightly more than half a million youths dropped out of high school. Among these high school dropouts, more than two thirds were in the labor force in October 2000. However, 28.1% of these young labor force participants were unemployed -- a full 15 percentage points higher than the unemployment rate for recent high school graduates who were not enrolled in college."[6]

"Higher levels of education generally corresponded to lower unemployment rates. The unemployment rate for those who had graduated from college was 5.6 percent for men and 3.1 percent for women. In contrast, those with less than a high school diploma experienced the highest unemployment rates – 16.3 percent for men and 20.3 percent for women."[6]

Minority populations are adversely disadvantaged by the dropout process. According to the Bureau of Labor Statistics,[6] in 2000 the ratio of dropouts to graduates

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[6] College Enrollment and Work Activity of Year 2000 High School Graduates, Bureau of Labor Statistics, Washington, DC, 2001, http://stats.bls.gov/newsrels.htm

in the last year of high school was 17 per 100 for whites, 27 per 100 for blacks, and 34 per 100 for Hispanics.

The method of completion of high school or high school equivalency has changed quite markedly over the recent decade. Exhibit 3 shows the percent of 18 to 24 year-olds completing high school between 1988 and 1999 increasing from 84.5% to 85.9%. Completion by conventional high school diploma dropped from 80.3% to 76.8% while alternative means (equivalency tests such as GED) doubled from 4.2% to 9.0%.

Originally designed to help GIs complete high school, the GED is now serving as an alternative for increasing numbers of older teens and young adults who do not choose the conventional high school as their path to adult learning.

Exhibit 3
High school completion rates and method of completion of 18 through 24-year olds not currently enrolled in high school or below: October 1988 through October 1999

		Completion method (percent)	
Year	**Total**	**Diploma**	**Alternative***
1988	84.5	80.3	4.2
1989	84.7	80.5	4.2
1990	85.6	80.6	4.9
1991	84.9	80.7	4.2
1992	86.4	81.2	5.2
1993	86.2	81.2	4.9
1994	85.8	78.8	7.0
1995	85.3	77.5	7.7
1996	86.2	76.5	9.8
1997	85.9	76.7	9.1
1998	84.8	74.7	10.1
1999	85.9	76.8	9.2

Note: Because of rounding, detail may not add to totals. Source: U.S. Department of Commerce, Bureau of the Census, Current Population Survey, October (various years).

* Completed high school by means of an equivalency test, such as a GED exam.

While a significant number of young people are not finishing high school, controversy surrounds the reporting of graduation rates. Jay Green of the Manhattan Institute[8] recently reported 74% as the national graduation rate for the class of 1998. This amounts to 878,000 individuals. The National Center for Educational Statistics (NCES) reports 86%. The discrepancy is partially attributed to the fact that NCES counts high school equivalencies, such as the GED, in graduation tallies. Graduation rates are poorly documented and infrequently discussed at the community level. In the case of several strategic planning projects conducted by Hudson Institute recently, Indiana high school annual drop out rates of 1 to 2% are frequently questioned by civic and education leaders. Most believe they underestimate what is really happening. In

[8] Green, Jay P., "High School Graduation Rates in the United States", Manhattan Institute, November 2001.

some communities, anecdotal comments have been validated by suspension statistics and police reports of youth problems during school hours. Some leaders now refer to "the kick out rate" as being much higher than the official dropout rate, especially for low income and minority students.

High School Non Completer Earnings

The problem of high school non-completion is particularly acute because, in the new economy, income gaps are highly correlated with differences in educational attainment. Census Bureau reports increases in earnings for high school diplomats 30% higher than those without a high school diploma and an additional 15% higher for those with some college education beyond high school.[9] Bauman and Ryan note that "the economic rewards of education continue to increase, so too do the number of people in the U.S. with degrees and credentials." Furthermore, even though the GED offers improvement in earnings above the non-high school diploma, "GED holders earned substantially less than people who graduated high school through traditional means." This is believed to be the case because, for GED holders, the GED usually represents the highest level of schooling they will complete whereas for the high school diploma holder, it is a passport to post-secondary education.

Pathways to earnings growth are all the more difficult for non-completers. Low attainment working youth become low attainment working adults. In 2000, according to the BLS, it is estimated that 45 million working adults never attempted formal post-secondary education and training. Given that some estimates are as high as 80% of today's jobs require education beyond high school, these workers are significantly disadvantaged as the knowledge economy takes root. Adding between one half to one million high school non-completers per year to this pool of under skilled adult workers adds to the future challenge of upgrading the workforce.

Complicating matters, the learning needs of working youth and working adults without high school equivalencies are not well met by the student aid system once they leave school. Student aid is designed primarily for student's enrolled half time or more (six or more credit hours). It was designed at a time when the baby boomers went off to college in large numbers. Today's working youth and working adults are seldom eligible for subsidized loans and few are awarded Pell grants.

4. Financing Secondary Career Development and School Completion

With the added flexibility, agility, and responsiveness demanded by the "new learning market," is today's method of financing secondary vocational education

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[9] Bauman, J. J. and C. L. Ryan "What's It Worth? Field of Training and Economic Status." Current Population Reports. U.S. Census Bureau. p. 70-72. 1996. April 2001. www.census.gov/prod/2001

appropriate? Does today's financing enable more young people to combine academic and vocational offerings with ease? Does it leverage employer tuition aid in support of integrated work-study learning? For accelerated learners, does it encourage rapid progression through high school to post-secondary offerings?

Funding sources for secondary vocational education include revenues from the local tax base, state revenue sharing, state appropriations, federal Perkins dollars, U.S. Department of Labor (DOL) welfare-to-work dollars, and some Workforce Investment Act (WIA) funding. In many states, a specific mill levy or state appropriation applies to technical and vocational education.

For vocational administrators, making ends meet demands skill in juggling these various funding sources in a school system that frequently favors college prep. In Indiana, for example, member schools pay an agreed upon fee to their Area Vocational District for each equivalent full-time enrolled student. These fees come from each school's general fund. In cases where students attend the Area Vocational School from outside the district, their schools usually pay a higher fee. The fee is made up of two parts.

- The school-wide per capita fee; say around $3,000, and
- Fees up to $1,500 per student to cover the added costs of vocational education.

The State of Indiana budgets a special fund to defray the added costs under item ii. The state's per student subsidy is prorated by the degree to which the student is preparing for a high wage, high demand occupation as determined by the Indiana Department of Workforce Development.

A few Area Vocational Schools charge on a fee for service basis, such as for home schoolers. In other cases, they charge for supply costs, which can be substantial in such programs as automotive and building construction. In some Area Vocational Districts, the building trades program has become a "profit center" wherein student constructed homes are built and sold on speculation.

Area Vocational directors in Indiana observe several problems with the current funding arrangement.

- Because the cost per student for vocational education is higher than that for regular students, School Boards view the Area Vocational School as an added financial burden and school administrators discourage vocational enrollment. Few schools systematically review their vocational programs on a revenue-cost basis. If they did, they might find many programs more than pay their way.
- School districts don't take an entrepreneurial approach to financing area vocational programs by joint venturing with local Business Skills Alliances.

- Vocational offerings at the Area Vocational School are poorly marketed to students in participating school districts because school boards and school administrators have little financial incentive to increase vocational enrollment.

In essence, with today's method of funding, choice regarding the provision of vocational technical programs is somewhat removed from market demand. Further, there is little financial reward for the Area Vocational Schools to innovate. This method of indirect pricing, combined with the mix of sources of funds, leads to poor accountability practices and give fuzzy market signals to school administrators. Most importantly, it likely discourages enrollment by students who would benefit from "learning by doing," which could result in higher school completion rates.

This funding approach may well have to change, as the stakes are raised for higher graduation rates and lower drop out rates. A financing program in the form of a scholarship/tuitionship, which follows the student, would make more sense. In this situation, students and their parents would be motivated to seek out the best way to complete high school successfully given each person's learning differences and personal circumstances. Further, a funding formula of this type would put all educators/administrators on a level playing field, motivating them to better inform students about all offerings.

Further, the current funding system does little for the accelerator group. By funding schools on a full-time equivalent enrollment basis, educators are motivated to keep school attendance up to ensure adequacy of resources. If, on the other hand, funds followed the student via a tuitionship/scholarship, students may well be able to accelerate their learning, either vocational or academic, meeting needs more cost effectively, and in a far more open, stimulating, and flexible learning environment.

Finally, a scholarship/tuitionship funding mechanism for the last two years of high school would ensure all students regardless of race, culture, and socio-economics would receive the same entitlement. As school funding now stands, only those who remain at school receive public support. Not only do dropouts not have this entitlement, but minorities feel the impact more than whites. A tuitionship, as outlined in Part 6, coupled with counseling and guidance through a local community development organization, as proposed, would provide the appropriate empowerment to those currently disadvantaged.

5. Youth Tuitionships: Flexible Financing – Individual Differences – Career Ladders

National Goals

The situation analyses in Parts 2, 3, and 4 bring focus to four primary national

goals for improved secondary career/vocational development:

Goal 1: Increase the aggregate educational attainment of 16 to 24 year olds with priority on substantially reducing the proportion of those without a high school diploma.

Goal 2: Increase skills mastery of 18 and 19 year olds to cover three broad areas: basic knowledge and technical skills mastery, social skills mastery, and life skills mastery.

Goal 3: Dramatically improve the match between supply of and demand for well-educated youth and young adults entering the workforce, either from high school or post-secondary institutions.

Goal 4: Increase returns to education and training.

Strategic Objective of Youth Tuitionships

The objective of youth tuitionships is to ensure that every young person who does not complete high school is provided the resources, both financial and interpersonal, to become a productive worker, learner, and citizen. In short, the goal is that no young person is left without basic educational/training foundations up to the equivalent of grade 12 or without the means to accelerate his/her educational progress to post-secondary education and training.

Design Features of Youth Tuitionships

Given the individual learning differences and motivations of 16 to 19 year olds, the projected shortage of skilled entry-level workers, and the criticality placed by employers on quality workers, the following are proposed as design features for youth tuitionships.

- The tuitionship can only be used for education and training leading to recognized credentials.
- Federal and state aid flows directly to learners and their parents.
- The tuitionships can be used for any accredited course of study, but must include the achievement of high school equivalency.
- The local school assigns a civic organization the role of counselor and information provider.
- Employers fully participate in the learning process.

- Learning pathways enable youth to accelerate through senior high school to the career/academic preparation of choice.

- Individuals are treated equally regardless of race, gender, and nationality.

- The pace of learning can be tailored to the learner's circumstances, such as health, pregnancy, parenting, and disabilities.

The Concept

- Public schools continue to offer and improve upon academic and vocational offerings for mainstream students.

- For those who do not complete high school for any reason, the School Board provides funding up to the equivalent of two years of schooling at the equivalent cost per student. On average, the total tuitionship might be around $12,000.

- These funds are deposited into an Youth Tuition Account (YTA) available for future use for education and training, under guidelines established by the School District which might include the following:

  - Achievement of GED equivalency to ensure basic skills.

  - The YTA can be used for occupational trades programs, including regulated apprenticeships.

  - Work-based education/on-the-job training is eligible so long as it leads to industry-recognized credentials.

  - Remedial education and GED are eligible.

  - Advanced placement, pre-college and community college courses are eligible.

- The School Board designates a community development corporation, local community foundation, or the like, as the responsible YTA Manager. This organization will conservatively manage YTA investments, mentor and counsel students, and provide up-to-date labor market information. For these services it would be allowed a small annual charge against the accounts under its oversight. The importance of on-going personal contact with a civic-minded development organization cannot be overstressed. The Maine experience with tuitioning (Exhibit 4) is that self-directed funds are not available to young people without on-going mentoring. In Maine the school maintains involvement. With this proposal the school assigns the responsibility to an intermediary.

- Funding sources to cover the additional cost of tuitionships might come from a combination of a local tax levy, a state match, a federal block grant in lieu of categorical grants, and philanthropic foundations. Further, matching funds from business would leverage the tuitionship outlays (see below).

- In addition to providing mentoring and counseling to these youth, the YTA Manager would foster Business Skills Alliances among local businesses desirous of hiring young people out of alliance-designed, well-structured, work-learning programs that would lead to credentials and to further courses of study as desired.

- Employers must match YTA funds dollar-for-dollar. In this way small businesses are subsidized in meeting their training needs while upgrading the skills of their employees and building local pools of talented workers.

Discussion

1. Similar Approach

The closest example in the U.S. to the proposed youth tuitionships is "tuitioning" in Maine (see Exhibit 4). The historic and cultural origins of Maine's program are quite different, but the design features bear similarities: fixed amount; equivalent to cost of high school education for the year; schools are responsible for on-going counseling/ guidance; available for public or private courses of study; lots of permissible learning options; available to juniors and seniors; and equal focus on academic and vocational trades. No similar approach has been found overseas.

2. Legal Age

The apparent success of Maine's tuitioning would indicate between 16 and 18 is not too young for the added responsibility of life career choice- making and taking responsibility for ones own resources.

Appendix 1 shows state determinations of the legal age to drive, to be gainfully employed full-time, and to choose whether or not to continue schooling. Between 16 and 18 would not seem to be out of keeping with the rights and responsibilities reflected in these determinations.

Exhibit 4

Tuitioning and Career Education in Maine

Tuitioning, is not new to the United States. It originates in Maine where school districts in rural areas can choose not to build high schools for small enrollments. Rather, they offer "tuitioning" whereby students can attend a nearby school of choice. Vermont has a similar program.

A few years ago Maine's tuition law was changed to include private as well as public schools. Nearly 2% of all students in Maine are funded by tuitioning. Tuitioning is used for both academic and vocational tracks, but has become particularly well suited to the vocational track. Students apply through their schools for placement into statewide vocational centers or programs. The schools have access to federal and state funds to tuition students in these programs; funds are not readily available to students without school involvement. Whether a student attends public or private school in the school year 2001-2002, the tuition rate is $6,013.93. Neither the state nor the local school system has a vested interest in what institution a tuitioned student attends. This allows for the state to make decisions based on the best interest of the student rather than the financial interests of particular providers.

The sparse population of the state, independent spirit of the people, and highly localized school governance, have resulted in a high degree of flexibility in response to individual situations. The Maine Department of Education works with many groups in a variety of ways to accomplish its "Seven Pathways to Success" philosophy:

- When program centers are not available to an interested student, often an apprenticeship will be created with a local business.
- Satellite programs can occasionally allow a teacher to be brought to a student when distance becomes a barrier to continuing an education.
- The Jobs for Maine's Graduates program has been ranked the best school to work program in the nation since 1995 and offers at-risk teens opportunities that have been historically unavailable to them.
- Tech Prep provides students with a community college environment.
- Maine's Career Advantage program offers high school students internships with local businesses.

Tuitioning, along with the creative use of Carl D. Perkins Vocational and Technical Education Act funds, enables Maine to sustain one of the most progressive applied and technical education programs in the nation. Maine's Workforce Education Team has 19 Applied and Technology School Centers, as well as eight Applied Regional Schools. It is also associated with applied programs at the Maine Youth Center. Program options include: Construction, Information Technology, Wholesale Retail, Business Administration, Hospitality, Tourism, Health Services, Agricultural and Natural Resources, and Financial Services. The successful completion of the selected program will give the student a diploma as well as skill certification on either a state or national level.

The availability of vocational education does not seem to affect attendance numbers or drop out rates. For the school year 1999-2000, the secondary education public enrollment was 60,696 and has been steadily increasing. For the school year 1999-2000, the secondary education private enrollment was 9,142 and had also been increasing. Dropout rates have been vacillating for years and do not seem to have a pattern; it is important to note that dropout rates are consistently lower in private secondary schools.

From 1999 to 2000, the number of secondary school aged students participating in adult education courses dropped slightly from an average of 2,365.5 to 2,191.5. (The average is derived from the number of students that enroll in courses in the spring and fall term.) According to the Maine Department of Education website, "For state subsidy purposes, school-aged adult education students are counted as .1 of a student for each semester-long course taken."

Social Equity

The fact that youth tuitionships level the playing field between socio-economic groups, could be encouragement to non-profits, with philanthropic backing, to provide added services to ensure maximum utilization by the disadvantaged and minorities.

Pace of Learning

Tuitionships make possible the pacing of learning into bite-size amounts for those unable to devote themselves to full-time study. This includes those of ill health or with disabilities, those who must work, are parents, or first need remediation. Tuitionship funds can be spread over many years.

Protection Against Misuse and Fraud

Fraud and abuse is a challenge with any public program. In addition to the usual precautionary measures, the fact that a local community development organization is a YTA manager adds credibility and trust. CDCs have had a notable track record for advancing the public trust. The use of community development organizations as YTA managers is a unique feature of this proposal. The YTA draws on over 20 years experience in community economic development.

Going to Scale

Assuming the policy concept is proven by further research and demonstration, federal initiative to ramp up the program might take two to three years. A phase in approach would be preferred where school districts pre-qualify, then apply. Evidence of local business and community/economic development support would be required.

6. A Portable Career Financing Vehicle: The Career Learning Account

The U.S. labor market is viewed as one of the most open and flexible in the world. Constant changes in the economy and individual preferences result in high labor mobility. The "new economy" calls for flexible individuals able to respond to new employment opportunities at home or other locations, adapting personal life accordingly. To that end, individuals and families are advantaged by having portable retirement, healthcare, and learning plans they can take with them. Over the past decade retirement plans have shifted markedly for corporate-managed, defined, benefit plans to individually- managed, defined, contribution plans. The trend in healthcare financing is moving in a similar direction, with the introduction of medical savings accounts and Cobra provisions that provide for 18 months of continuity after employment termination or departure.

As yet, no financing vehicle for lifelong learning has captured the imagination of policy makers or the public. Nothing yet has become the 21st century equivalent of the post war GI Bill. Yet much of the rhetoric about lifelong learning will not be realized without a lifelong learning savings and spending vehicle.

A variety of early experiments with individual development and training accounts are occurring. These are summarized in Appendix 2. The most promising tool, with minor modifications, is the Coverdell Education Savings Account, first introduced as the Education IRA in the1997 Tax Reform Act. In 2001 improvements were made that provide a near ready structure for the financing vehicle proposed herein "the Career Learning Account" (CLA).

While a CLA is not essential for the workings of Youth Tuitionships, it would make implementation much easier. Without the Career Learning Account, a separate financing structure would have to be created for the management of the Youth Tuition Accounts.

Only three major modifications are required of the Coverdell Education Savings Account to make it a CLA: increase annual contribution limits, especially for ages 16 to 19; eliminate the contributions age limit of 18 years of age, and allow for lifetime ownership, i.e., remove the requirement to terminate at age 30.

Features of the Coverdell Education Savings Account

As outlined in Appendix 2, the Education Savings Account, as modified beginning in 2002, has the following characteristics:

- Non-deductible tax contributions of up to $2,000 per year can be made into a beneficiary's account.
- Contributions can be made by parents, grandparents, other individuals, corporations, non-profits, and other entities. There are limitations on individual contributions, but they are fairly inclusive, allowing for married couples filing jointly to contribute if their adjusted gross income is less than $200,000 a year.

- Payouts from the savings account can be used for qualified public, private, and religious education expenses – elementary, secondary, and post-secondary.

- Earnings from distributions not used for education expenses are treated as taxable income and subjected to a 10% penalty except in cases of death or disability.

- At age 30 the savings account terminates. The remaining balance must be distributed or rolled over to another eligible individual.

Features of the Career Learning Account

The following modifications are recommended for conversion of the Education Savings Account to a Career Learning Account.

- Contributions would be permissible up to $5,000 a year, matched dollar for dollar by charitable organizations, community development corporations, schools, etc., for low-income individuals (as determined by school lunch program).

- The account could be held over an individual's lifetime, being available for accredited, credentialed learning throughout life.

- The account can receive youth tuitionships from school districts. Such lump sum contributions can exceed the annual limit.

Promotion of the Career Learning Account as the 20th Century Version of the GI Bill

The Career Learning Account is a simple savings mechanism that could be widely marketed to the population at large, just as IRAs have been. The CLA can be created at birth, but must be created no later than enrollment in kindergarten, at which time the local school is responsible for ensuring **all** students have a CLA. In other words, every individual entering formal education will have his or her individual education savings account.

The school district is responsible for appointing a local community foundation, CDC or other non-profit community organization as guardian of accounts and community-wide marketer.

CLAs would be widely promoted by community organizations, chambers of commerce, schools, church youth groups, boys and girls clubs, etc. Whenever the young person receives an award no matter what the setting, community groups or organizations would be encouraged to make a financial contribution to the individual's CLA.

Local community foundations and philanthropic foundations could provide dollar for dollar match for children of low income as determined by school lunch eligibility. This would enable large numbers of children living in poverty or in low income households to acquire real prospects of having a substantial "nest egg" for on-going education beyond high school, something often outside their reach unless they show exceptional academic merit or athletic ability.

Eventually the community-based promotion of CLAs across the nation could transform the way young people, their families, and communities prepare for the world of learning.

7. Critique and Alternative Approaches

The purpose of Part 7 is to briefly examine potential downsides of Youth Tuitionships, and to begin to document alternative approaches to learning for non-traditional students, ages 16 to 19.

Youth Tuitionships offer various advantages: they offer greater choice to parents and young people at that point in life when the law allows the young person to leave school; they eliminate financial bias against non-college learning; they enable those not prepared for college to experience the world of work, possibly returning to college later; and they improve fairness by providing equal funding to those not college bound through the equivalent of grade 12.

Criticisms

1. Might not Youth Tuitionships encourage even greater numbers not to complete high school?

   Yes, quite possibly. However, the dominant societal message, economically and culturally, is "complete high school and go on to post-secondary education." The traditional college track is the aspiration of increasing percentages of school leavers. The market signals are clear. According to the BLS, jobs requiring at least some college will increase 22% from 1998 to 2008. The wage premium between no high school diploma and high school diploma is 34% and between high school diploma and some post-secondary education/training is 15%.

   Youth Tuitionships are not designed to reduce the non-completion rate, rather to offer opportunities for alternative learning arrangements to non-traditional students leading to higher educational attainment. Quite conceivably, more youth might prefer this track.

2. Will Youth Tuitionships diminish the importance of the high school diploma over equivalency?

   Probably not.

   High school graduation is seen not only as providing access to college education, but as a "right of passage" to adult life. Nevertheless, Youth Tuitionships do create more structured ways to learn for a living and learn for life, without passing the high school diploma. These routes exist today, for example, as accelerated college tracks for very bright youth that bypasses the high school diploma and military recruiting prior to high school completion.

3. How can we be sure CLA funds will be invested wisely?

   Already strict financial practices have been set up for classes of community development organizations, e.g., community-based credit unions, community development financial institutions (CDFIs), and CDCs acting as administrators for IDAs.

4. How would disadvantaged families benefit? Might this become yet another middle class subsidy?

   Yes, quite likely, Youth Tuitionships will benefit the middle class. But tuitionships have unique potential to provide for learning opportunities hitherto unavailable to low-income families. Matching philanthropic funding into YTAs and CLAs is permissible. Community foundations, in particular, would be encouraged to find ways to "boost" the Career Learning Accounts of low-income children.

Alternative Approaches

Approaches that resemble Youth Tuitionships are hard to find. The search is continuing. David Gruber (of San Francisco) and Julian Alissid (of New York) have devised an entrepreneurial solution to the dropout problem. They have created an alternative schooling arrangement for high school dropouts, taking advantage of funding available in those states that are legally bound to provide education to all.

Several states have a legal obligation to educate their residents to high school equivalency. In some cases the age limit is 21 years of age. Gruber and Alissid propose to offer alternative/middle college education for youth in these states, claiming reimbursement from the state. This is an interesting variation of Youth Tuitionships and deserves further examination when details are obtained.

8. Conclusion: Next Steps

This paper has attempted to formulate the remaining reasoning for and design of an alternative financing mechanism that would have major consequences not only for secondary vocational education but senior high school in general. Many areas of further research are warranted, before this policy idea can be proposed in final form:

- ***Further Data Analysis of Non Completion***

  Only very aggregate statistics have been used in this paper. A complete literature search and analysis using existing data sources would better define:

  - ✓ The demographics of non-completion.

- ✓ The causes of non-completion, including socio-cultural factors.
- ✓ Successes and failures of accelerated learning programs.

- ***Existing Programs to Address Non-Completion***

  The proposal should be compared with current best practices for increasing high school completion.

- ***How Far Might the Tuitionship Go?***

  Construction of "typical scenarios" for young people who might choose youth tuitionships would be helpful: how much remedial education, GED, regulated apprenticeship, occupational certification could the $12,000 proposed tuitionship buy? Such research would include exploration of business/industry association interest, along with an assessment of how many and what types of employers might participate with matching tuition reimbursement.

- ***On-Site Exploration of Implications***

  Explore the practical features in three school systems: one rural, one suburban, and one urban. Issues would include legal requirements, teacher labor contracts, employer receptivity, and parental and youth interest.

- ***Design of a Demonstration***

  Three or four school districts would be recruited as pilots for a three to four year demonstration. Major government and philanthropic funding would be required to support a full-scale, quasi-experimental design.

- ***National Survey of Education Experts***

  After a further round of data analysis, search for similar approaches and tuitionship design, a qualitative survey of education experts would provide valuable critique.

Appendix 1

Legal Age Requirements for 16-19 Year Olds, Fifty States

The legal age at which a youth is determined to take up adult rights and responsibilities is determined by the states. This Appendix provides state comparisons for the legal age to drive, to be gainfully employed full-time, and to terminate compulsory schooling.

These data reflect differing determinations depending on varying traditions, priorities, and values across the U.S. However, similarities are apparent. Clearly, the 16 to 19 year old range marks transition into adulthood. Where the age limit is below 15 years of age, restrictions and special conditions apply. Where 18 or above applies, as is the case of legal school age in seven states, alternatives are available from 16 and require pursuit of vocational education and work/study programs. Almost uniformly, the legal age for full-time gainful employment is 16.

Chart 1: Legal Age for Drivers License, Fifty States

Chart 2: Legal Age for Full-Time Employment, Fifty States

Chart 3: Compulsory School Age, Fifty States

Chart 1 – Legal Age for Drivers License, Fifty States

State	Age	Restrictions
Alabama	16	
Alaska	16	
Arizona		
Arkansas	14	Proof of school enrollment with a GPA of 2.0
California	16	
Colorado	16	
Connecticut	16	
Delaware	16, 10 mo.	
Florida	16	Restricted Hours
Georgia	16	Proof of school enrollment, course on drugs and alcohol
Hawaii	16	
Idaho	15	Restricted Hours
Illinois	16	Proof of school enrollment
Indiana	16, 1 mo.	
Iowa	16	Restricted Hours
Kansas	16	
Kentucky	16, 6 mo.	Proof of school enrollment
Louisiana	17	
Maine	16	Restricted number of passengers
Maryland	16, 1 mo.	Restricted hours
Massachusetts	16, 6 mo.	Restricted hours and number of passengers
Michigan	16	Restricted hours
Minnesota	16	Parental involvement
Mississippi	16	Proof of school enrollment
Missouri	16	Restricted hours
Montana	15	
Nebraska	16	Restricted hours
Nevada	15, 9 mo.	Restricted hours and number of passengers
New Hampshire	16	Restricted hours and number of passengers
New Jersey	17	Restricted hours and number of passengers
New Mexico	15, 6 mo.	Restricted hours and number of passengers
New York	17	
North Carolina	16	Restricted hours
North Dakota	16	
Ohio	16	
Oklahoma	16	Restricted hours
Oregon	16	Proof of school enrollment
Pennsylvania	16, 6 mo.	Restricted hours and number of passengers
Rhode Island	15, 10 mo.	
South Carolina	15	Restricted hours
South Dakota	14	Restricted hours
Tennessee	16	Restricted hours and number of passengers
Texas	16	Restricted hours and number of passengers
Utah	16	
Vermont	16	Restricted number of passengers
Virginia	16, 3 mo.	
Washington	16	Restricted hours and number of passengers
West Virginia	16	Restricted hours and number of passengers
Wisconsin	16	Restricted hours and number of passengers
Wyoming	16	

Source: Various state websites.

Chart 2 – Legal Age for Full-Time Employment, Fifty States

State	Age	Exceptions
Alabama	16	
Alaska	16	
Arizona	16	
Arkansas	16	
California	16	Must have GED or be in a work study program
Colorado	16	
Connecticut	16	
Delaware	16	
Florida	16	
Georgia	16	
Hawaii	16	
Idaho	16	
Illinois	16	
Indiana	16	
Iowa	16	
Kansas	18	
Kentucky	16	
Louisiana	16	
Maine	17	
Maryland	16	
Massachusetts	16	
Michigan	16	
Minnesota	16	
Mississippi	16	
Missouri	16	
Montana	16	
Nebraska	16	
Nevada	17	
New Hampshire	16	
New Jersey	16	
New Mexico	16	
New York	16	
North Carolina	16	
North Dakota	16	
Ohio	18	
Oklahoma	16	
Oregon	16	
Pennsylvania	16	
Rhode Island	16	
South Carolina	17	
South Dakota	16	
Tennessee	17	
Texas	16	
Utah	16	
Vermont	16	
Virginia	16	
Washington	15	
West Virginia	16	
Wisconsin	18	
Wyoming	16	

Federal regulations restrict minors from working with machinery. Source: Various state websites.

Chart 3 – Compulsory School Age, 50 States

State	Age	Exceptions
Alabama	16	
Alaska	16	
Arizona	16	
Arkansas	16	
California	18	Continuation education with part-time job at age 16
Colorado	17	GED at 16 if going to university
Connecticut	16	
Delaware	16	
Florida	16	
Georgia	16	
Hawaii	18	
Idaho	16	
Illinois	16	
Indiana	16	
Iowa	16	
Kansas	18	Alternative program available at 16
Kentucky	16	
Louisiana	16	
Maine	17	Work/study program at 15
Maryland	16	
Massachusetts	16	
Michigan	16	
Minnesota	16	
Mississippi	16	
Missouri	16	
Montana	17	
Nebraska	16	Must have full time employment
Nevada	17	
New Hampshire	16	
New Jersey	16	
New Mexico	17	
New York	16	
North Carolina	16	
North Dakota	16	
Ohio	18	Vocational program at 16
Oklahoma	16	
Oregon	18	16 if employed full-time or in a work/study program
Pennsylvania	16	
Rhode Island	16	
South Carolina	17	
South Dakota	16	
Tennessee	17	
Texas	18	GED can be taken at 16
Utah	17	
Vermont	16	
Virginia	16	Work training at 14
Washington	16	Must have full-time employment
West Virginia	16	
Wisconsin	18	
Wyoming	16	

Source: Various state websites.

APPENDIX 2

As a means to provide individuals with their own savings/spending vehicle for lifelong learning and/or college a number of self-directed tools have been introduced in recent years.

This Appendix summarizes:

1. Coverdell Education Savings Account
2. 529 College Savings Plan
3. Individual Training Accounts under the Workforce Investment Act (ITAs)
4. Individual Development Accounts (IDAs)
5. Lifelong Learning Accounts (LiLAs)

1. ***Coverdell Education Savings Account (formerly Education IRAs).*** The 1997 Taxpayer Relief Act introduced a brand new education savings vehicle: The Education IRA. Taxpayers could contribute up to $500 per year, per child up to the age of 18. Tax deductibility of contributions did not apply, but distributions could be tax-free and penalty free if used to pay for post-secondary education, tuition, room and board, and related expenses. Beginning in the 2002 tax year, amendments and a name change reflect a broadening emphasis to education savings in general. The Coverdell Education Savings Account now provides that distributions can be used for school as well as college education. It also allows for contributions from corporations, tax exempt organizations, as well as individuals. Earnings from distributions not used for education expenses are to be treated as taxable income and subjected to a 10% penalty, except in cases of death or disability. At age 30 any remaining balance must be distributed or rolled over to another eligible individual.

   1998-2001 – The Education IRA

   Maximum annual contribution limit: $500
   Eligibility limits: (adjusted gross income)

   - Married couples filing jointly: $150,000 to $160,000 phase out
   - Single taxpayers: $95,000 to $110,000 phase out

   Contributors: parents, grandparents, and others who meet income limitations

2002 and subsequent years – Coverdell Education Savings Account

Maximum annual contribution limit: $2,000
Eligibility limits: (adjusted gross income)

- Married couples filing jointly: $190,000 to $200,000 phase out
- Single taxpayers: $95,000 to $110,000 phase out

Contributors: beginning in 2002, corporations, tax-exempt organizations, and other entities are eligible contributors in addition to individuals.

2. ***529 College Savings Plan***

529 College Savings Plans continue to grow in popularity. They are a means to save, tax deferred, much larger amounts than in Education Savings Accounts. There are no income limits restricting those eligible to contribute. In addition to federal income tax deferral, many states allow 529 investments to grow tax-free.

Savings must be used for qualified higher education. When withdrawn, the earnings are taxed at the beneficiary's federal and state tax rates, typically lower than that of the contributors. Qualified expenses include tuition, fees, room and board, books, and related supplies at an institution of higher learning – colleges, universities, graduate schools, and most community colleges, and vocational technical schools.

Contributions are considered gifts and federal gift tax rules apply. Consequently, the maximum yearly contribution is $10,000, before being subject to the gift tax. However, a special provision permits contributing up to $50,000 per contributor in a single year, so long as no subsequent gifts are made over a five-year period.

Like the Education Savings Plan, the 529 College Savings Plan could be modified to serve the function of a Career Learning Account.

3. ***Individual Training Accounts (ITAs) under the Workforce Investment Act (WIA)***

ITA's are a novel experiment in self-directed financing for those eligible for assistance under WIA. Several demonstration projects are underway.

An individual eligible for training under WIA may, in consultation with a case manager, select a training program from a statewide list of approved programs. The ITA is the means by which payment for such services are made.

In current demonstrations, the ITA award is around $2,000 per person. The individual does not manage the account; rather it acts like a debit account from which service payments are made.

In its present form the ITA program does not have sufficient scale. The program is designed, however, to receive funds from other public programs, such as Pell grants, welfare-to-work, and TANF. As such, all ITA could become the financing vehicle for keeping track of education and training entitlements, enabling such entitlements to be used to best advantage. In this respect, the ITA has features of the Michigan Opportunity Card, proposed over a decade ago.

It is too early to assess effectiveness and potential of ITAs from the ongoing national demonstration project. Early indications are that users place high priority on selecting value added training – training that leads to wage gains and is delivered conveniently and efficiently.

4. ***Individual Development Accounts (IDAs)***

The IDA is a restricted savings account, introduced as a means to foster asset building for low-income individuals (the poor person's IRA). Several states have introduced IDAs into their mix social welfare programs. A major cross-state national demonstration project is underway.

IDAs are set up in the name of each individual, as early as birth, for whom matching contributions by the state are made on a sliding scale. In full implementation, the IDA would be available to everyone, with the public subsidy portion phasing out for those of increasing income/wealth.

Most IDAs can be used for high return personal investments such as: college education, starting a business, or buying a first home.

IDA program management and account oversight is delegated to a local community based organization. This ensures appropriate counseling and guidance at the local level to those less familiar with managing savings, sometimes for the first time.

5. ***Lifelong Learning Accounts (LiLAs)***

The primary lead in the development of LiLAs is the Council on Adult and Experiential Learning. A national demonstration is underway.

The LiLA has components of an IRA and an Education Savings Account. It has the option of recovering a match from the beneficiary's employer, if it is a small or medium sized business as defined by the Small Business Administration. The employer would get a credit for each dollar, matched up to $500 per year.

Any person aged 18 who is employed or self-employed could contribute, and deduct for federal taxes, up to $5,250 annually, adjusted for inflation, into a tax-free account. Third parties could also contribute up to the annual $5,250 limit.

Employers with taxable income less than $100,000 would be eligible to establish/contribute to a LiLA. These accounts are intended to become part of a package of employee benefits. Already under Section 127, an employer's contribution to training is tax exempt up to $5,250. LiLAs are a means to convert annual availability of training funds into a savings stream for the employee.

Related Tax Incentives

These savings vehicles are not the only means by which government is encouraging individual investments in education and training.

In 1997, the Taxpayer Relief Act created two education tax incentives; the Hope Scholarship Credit and the Lifelong Learning Credit. The Hope Scholarship Credit is a credit of 100% of the first $1,000 of qualified tuition, plus 50% of the next $1,000 qualified tuition for each of the first two years of a student's post-secondary education in a degree or certificate program. It is targeted at students carrying at least half-time course workload in at least one academic period. The credit is subject to an adjusted gross income phase out. The Lifetime Learning Credit is a 20% credit on qualified tuition fees up to $5,000 for a maximum of $1,000 per year. The credit increases to a maximum of $2,000 for expenses paid after 2002. The credit is available for any course at an eligible institution and for part-time as well as full-time students. This is also subject to the adjusted gross income phase out. Early research is indicating that both credits have been widely used. They have benefited the middle class who would have made the investment regardless. While intended to spur part-time learning by full-time workers, the Lifelong Learning Credit appears to be used predominately by part-time workers with full-time course loads, such as graduate students.

Other tax provisions encouraging investment in education include an interest deductibility on qualified higher education loans; employer paid education assistance to employees up to $5,250 tax free for education expenses; and disregard of the 10% penalty on early withdrawals from IRAs if used to pay for qualified higher education of the taxpayer, spouse, child or grandchild; a welfare to work tax credit and a work opportunity credit.

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